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15 October 1951

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Department
review completed

DIA and PACOM
review(s) completed.

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SECTION 1 (SOVIET)

1. HUNGARY. Experiments in extracting iron ore from bauxite underway:
Experiments have reportedly been successfully concluded in Hungary by which iron ore is extracted from bauxite. This new process eliminates the need for the importation of grey wrought iron, a difficult problem heretofore. [redacted]

Comment: This process, of tremendous importance to Hungary, which has great quantities of bauxite and desperately needs iron, is still in the experimental stage. Even if successful, it would take several years to put it into practice. That the Hungarian Government recognizes the importance of reducing this time lag is revealed in a speech by Erno Gero at the inauguration of a metal research institute in Budapest in September. One of the purposes of the institute, he said, would be to enable "what today is a laboratory experiment, tomorrow to be employed as a fully worked-out production process."

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2. YUGOSLAVIA. Interview with Tito regarding US military advisory group inconclusive: Ambassador Allen reports that his interview with Marshal Tito concerning the size and duties of the US military advisory group was inconclusive. Tito declared that inspection of Yugoslav army installations and depots by American officers would undermine the very basis for the "high Yugoslav army morale" and that he would forego all American military aid rather than run the risk of creating the impression among his troops that the US had assumed the role the USSR previously held in Yugoslavia.

Tito conceded, however, that a written agreement regarding the size and functions of the group was unnecessary and that the approach should be more flexible. He thought that the Yugoslav Government itself might well suggest a considerably larger group once the program was well underway, particularly if, as he hoped, strategic discussions had been started.

Comment: The presence of US military advisers in Yugoslavia poses a real problem for the Tito regime. In addition to harboring some suspicion that his unsavory experience with the Soviet military mission prior to 1948 may be repeated, Tito probably fears that activities of the US military group will create further dissension within the party. Tito has also recently shown increasing concern that Western aid is encouraging a greater degree of popular resistance to the regime.

3. World Bank aids Yugoslavia: The International Bank for

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Reconstruction and Development has extended a \$28,000,000 loan to Yugoslavia for development in the fields of electric power distribution, coal mining, extraction and processing of non-ferrous metals, manufacturing industries, use of forest resources, farm and fisheries production, and transportation. The loan is repayable in 25 years and is in European currencies. [redacted]

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Comment: This represents the first installment. IBRD has indicated that it would probably extend a second installment of \$30,000,000 three or four months after the first. The IBRD loan is subject to several conditions including an overall Yugoslav national debt ceiling during the next 20 years of \$370,000,000. This indicates the possibility that the IBRD loan program may fall considerably short of the \$200,000,000 figure for which the Yugoslavs have been negotiating.

4. Official in charge of deportations to Bulgaria arrested: A Yugoslav secret police major, who reportedly was in charge of the recent deportations to Bulgaria, has been convicted of malfeasance in office and embezzlement. A US Embassy source states that the major was arrested because he had expropriated the jewelry and gold coins of the deportees for his personal use. The Embassy notes that this explanation is in line with the published charges and fits the current Yugoslav endeavor to eliminate graft and corruption in public office. The Embassy does not believe, however, that a previous rumor that the UDB officer had been arrested solely for his responsibility in the deportations, should be completely discounted. [redacted]

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Comment: The arrest and conviction of the UDB official reportedly in charge of deportations suggests the possibility that they might have taken place without the approval of high Yugoslav authorities. On the other hand, the deportations may have been made in exchange for Yugoslav citizens in Bulgaria.

5. Compulsory deliveries of hogs halted: A Yugoslav Government decree has ordered the immediate abolition of the compulsory delivery of hogs and olive oil at official prices by the peasants. [redacted]

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Comment: This latest decontrol measure leaves only three major agricultural products subject to compulsory sale to the State at below free market prices: wheat, corn and wool. The edict is primarily an attempt to satisfy the tremendous pressure of consumer demand for fats which have been in extremely short supply. Furthermore, it represents another concession to the peasantry, the first having been the abolition of compulsory deliveries of meats, dairy products, fodder and vegetables.

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SECTION 2 (EASTERN)

1. INDIA. Another Sino-Indian Friendship Association formed: The Sino-Indian Friendship Association of Bihar was inaugurated in Patna, Bihar, on 25 September, with members of the Bihar government, educators and artists participating. According to the Peiping news agency, the Association is supported in its work by the Indian Congress Party, the Communist Party of India, the Forward Bloc, the Bihar Peace Committee, the Peasants Union, the Democratic Youth Federation, and educational and sports organizations. [redacted]

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Comment: This is the third branch of this organization known to have been established in India [redacted]

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[redacted] The Chinese Friendship Associations appear to be over-shadowing the Friends of the Soviet Union Societies as media for Indian cultural relations with Communists.

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2. PAKISTAN. Egypt's abrogation of Anglo-Egyptian treaty supported: Public opinion and the press in Pakistan support Egypt solidly on the abrogation of the Anglo-Egyptian treaty but there is no public hysteria at present, according to the US Embassy in Karachi. [redacted]

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3. BURMA. Nu to discuss Japanese treaty with Nehru: According to the Indian press, the forthcoming conference between Nehru and Burmese Prime Minister Thakin Nu will be concerned chiefly with the matter of a Japanese peace treaty. Indonesia is unlikely to join these talks. [redacted]

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Comments: There is no doubt that the prospects of a Japanese treaty will be discussed, but it will be hard-pressed by at least two other matters to qualify as the "main topic." These other considerations are the presence of Chinese Nationalist troops in north Burma and the question of mutual security.

4. THAILAND. "Double Tenth" widely celebrated in Bangkok: The US Embassy in Bangkok reports that the local Chinese celebrated the anniversary of the establishment of the Chinese Republic (Nationalist) on 10 October on a much more lavish scale than heretofore. The Embassy believes that this development is indicative of the rapidly rising tide of anti-Communist sentiment among the overseas Chinese in Thailand. [redacted]

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Comment: Although anti-Communist sentiment among overseas Chinese has been most pronounced in Thailand, it has been increasingly manifested by Chinese throughout Southeast Asia.

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6. Both French and Viet Minh suffer heavy losses: A French medical official told the US Consul in Hanoi that French losses, as well as those of the Viet Minh, were heavy during the recent delta clearing operations. The informant stated that practically all French non-commissioned officers in this action were "knocked out" by causes ranging from enemy action to sunstroke. Meanwhile, the Viet Minh 312th Division casualties continue to mount as French aircraft pursue retreating units.

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Comment: The short-run results of the current dry season operations in Indochina have been favorable to the French. As long as battle casualties and the climate claim a heavy toll of French forces, however, there is little prospect that the French can achieve a decisive victory.

7. French report no Chinese Communist units in Indochina: French military [redacted] informed the US Military Attache in Saigon that it has not been able to identify any Chinese Communist units in Indochina except a motor transport detachment operating supply trucks across the border. However, the presence of Chinese military advisers and instructors down to and including the platoon level has been confirmed.

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The Attache emphasized that no evidence of any kind available to him indicates the presence of regular or irregular Chinese Communist combat units within Tonkin. [redacted]

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8. INDONESIA. Indonesian-Czech trade agreement signed: Indonesia and Czechoslovakia have concluded a trade agreement, valid for one year, for an exchange of goods to the amount of 60,000,000 rupiahs (approximately 16,000,000 dollars). Indonesia will deliver rubber, tin, copra and quinine in return for automobiles, machinery and paper. [REDACTED]

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Comment: Specific terms of the treaty are not yet available. [REDACTED]

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9. Chinese celebrations quieter than last year: In Djakarta, both the Chinese Communist holiday on 1 October and the Nationalist holiday of 10 October were observed more quietly than they were last year. The Communist celebration particularly lacked the aggressiveness manifested a year ago, and as far as is known no statements were made attacking or insulting the US. Fewer Communist flags were displayed this year.

Observers feel that the Chinese community is shifting away from the Communists but not necessarily towards the Nationalists. The majority of Chinese, particularly business groups, appear desirous of avoiding a definite allegiance to either side and of remaining uncommitted until long range prospects are clarified. [REDACTED]

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Comment: The restrained celebration on 1 October may be ascribed principally to unfavorable reports of the Communist regime in China and the Indonesian Government's unexpected and widespread arrests of Communists and subversives (including Chinese) in August and September. The shift from the Communists, but not toward the Nationalists, appears to be true. There is a determinedly anti-Communist Chinese bloc in Indonesia, but many of this group are not pro-Nationalist.

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12. CHINA. Communists seek Pakistani shipping to carry rubber: The Chinese Communists are endeavoring to find a vessel to carry another 5,500 tons of rubber from Ceylon to China. The Poles, who previously furnished a vessel, reportedly are unable to provide further shipping in 1951. Chinese interests are accordingly trying to charter Pakistani shipping. [redacted]

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Comment: This report is the first indication that the Poles have given up plans for lifting further cargos of Ceylonese rubber, presumably as a result of their continuing difficulties in buying bunkers for ships en route to China. Long delay appears to be in prospect before shipment of Ceylonese rubber to China is resumed. Previous Chinese attempts to charter a Pakistani vessel to lift Ceylonese rubber met with Pakistani refusal to arrange such charter.

13. Chinese Nationalists reported to believe invasion of Formosa temporarily postponed: A Chinese Nationalist press report of 12 October states that the Nationalist High Command interprets the reported move of the Chinese Communist Third Field Army Headquarters from Shanghai to Nanking as implying that "the Reds have cancelled temporarily their plan to invade Formosa." Another explanation of the move, according to Nationalist military sources, is that the decision is part of the over-all defensive strategy of the Communists along the China coast. [redacted]

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Comment: This is a reversal of Nationalist statements which have been predicting the imminent invasion of Formosa since the fall of 1945.

The Headquarters of the Third Field Army has been accepted in Nanking since the spring of 1951.

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14. KOREA. Chinese Communist division relieves North Korean units in the eastern sector of the battle line: Based upon statements by prisoners of war taken from all regiments of the Chinese Communist [redacted] Army Group, the relief of the North Korean [redacted] Divisions, V Corps in the mountainous region immediately east of the Pukhan river by this Chinese Communist division is accepted by the Far East Command. FECOM believes that "at least one more division of the 68th Army will soon appear to relieve the remaining North Korean 6th Division, V Corps."

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Comment: This relief of major North Korean units by a Chinese Communist unit -- not a usual practice -- in the vicinity of hard-won "Heartbreak Ridge" may attest to the damage inflicted on the North Korean units by UN forces in the course of the still continuing "limited offensive" in this sector.

The enemy's strength in the mountainous eastern sector is now at 15 divisions.

15. Balance of Chinese Communist 20th Army Group may be in Korea: The Far East Command accepts the presence of an unidentified Chinese Communist unit of undetermined size in eastern Korea, northwest of Kum-song. FECOM speculates that this unidentified unit may be the missing army of the Chinese Communist 20th Army Group; the 20th's 67th and 68th Armies are currently engaged in this sector. [redacted]

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Comment: Chinese Communist army groups encountered so far in Korea have conformed to the usual Chinese practice, though not a hard and fast one, of having three or more armies subordinate to them.

In this connection, [redacted] the Chinese Communist 66th Army -- long engaged in Korea and withdrawn earlier this year -- has been rehabilitated and returned to Korea. The 66th was believed to be subordinate to the 20th Army Group at one time.

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16. Evidence of disruption of governmental functions in North Korea seen: A 9 October North Korean broadcast, deploring the lack of "executive ability" among local North Korean administrative officials, lends credence to the oft-reported shakiness of the North Korean Communist regime.

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25X1 The broadcast, while praising the "high morale" and "ideological correctness" of the newly recruited cadres, accuses local officials of failing to grasp "all of the swiftly changing conditions and to carry out successfully all the fighting tasks which constantly confront them." Noting that the labor section of one county's Peoples Committee was so lax in developing "executive ability" that the area was "two to three months behind in carrying out important directives and orders," the broadcast recommends that administrative personnel must "quickly cultivate" such skills as will enable them to carry out their jobs successfully. [redacted]

Comment: The brief UN occupation and the manpower of the war have had far-reaching effects on the previously effective control exercised by the North Korean regime over the population. The replacement of conscripted, defected or deceased former administrative officials apparently has not been very successful. Throughout Korea generally, executive ability and resourcefulness have been at a premium. [redacted]

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17. ROK to hold local elections in December: According to an official ROK press release, local elections for city, town and county officials will be held in early December. By-elections will also be held for the seats of eight deceased National Assembly members, although the seats of the 23 Assemblymen captured and still held by the Communists will remain vacant.

The elections, to take place only south of the Han River and in non-guerilla areas, were originally scheduled for early 1950, then postponed until the summer of 1950, at which time the war intervened. The ROK Government has repeatedly postponed the elections on the ground of "wartime emergency." [redacted]

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Comment: While the National Assembly has continuously agitated for these elections, it is believed that no "special" pressure was brought to bear to effect this decision.

18. JAPAN. Trade with Communist China less than one percent of total exports: Trade data for the first seven months of 1951 show that Japan's monthly exports to Communist China averaged 770,000 dollars, of which approximately 15 percent were cotton textiles, the balance consisting of miscellaneous consumer goods of a non-strategic and non-critical nature. Export controls, which cover virtually all goods on the US positive list and are considered more stringent than those in force in Hong Kong, have reduced the China trade to less than one percent of total Japanese exports. [redacted]

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Comment: The recent resumption of textile shipments to Communist China, after a two months' embargo, gave rise to considerable criticism in Hong Kong and Singapore newspapers, which incorrectly assumed that export controls had been relaxed. Since the temporary embargo was lifted, the Japanese press states that only one shipment of 144,000 yards of textiles in exchange for salt has been reported, although several barter deals for coking coal are reportedly awaiting approval.

19. Airline contract is signed: A contract for the operation of a domestic airline for Japan was signed on 11 October between Northwest Airlines and the Japan Airline Company. The first service is scheduled for 25 October.

Comment: This contract with a single American company was signed after negotiations with a group representing several international airlines broke down. Far Eastern Commission directives prevent ownership or operation of aircraft by Japanese nationals; Government officials have indicated, however, that they will propose the use of Japanese co-pilots as soon as the peace treaty comes into effect.

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SECTION 3 (WESTERN)

1. GERMANY. Delay in Allied counteraction in Berlin favored: Commenting on the increasing evidence that the East Germans are not complying with the conditions agreed to at the time of the signing of the interzonal trade pact, High Commissioner McCloy states that the British, French and West Germans are reluctant to take any counteraction at this time. In the event any steps are taken against continued East German restrictions on Berlin trade, the French and British seem to favor a progressive application of pressure before considering outright stoppage of interzonal trade. [redacted]

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Comment: Although the East Germans agreed orally on 20 September, when the trade pact was signed, to lift various harassing measures in Berlin, their only compliance has been a reduction of the highway tax. Obstruction of trade permits and interference with parcel post shipments are continuing, although apparently on a somewhat reduced scale. The important Rothensee canal lock remains closed. Reluctance of the British, French, and Germans to take counteraction may arise partly from the belief that the net effect on the West Berlin economy of these harassing measures has been less serious than was originally feared and that the Communists can impose more damaging restrictions at any time.

2. FRANCE. Financial dilemma may force retrenchment in Europe or Indochina: If the burden of the war in Indochina forces France to curtail its NATO commitments, the French may demand that the proposed German contribution to Western defense be correspondingly reduced to prevent its exceeding their own. The French are anxious, nevertheless, to have the Germans carry an equitable share of defense costs in order to avoid a deterioration in the French balance-of-payments position with Germany, and they are seeking ways to secure additional German financial commitments outside of a direct defense contribution.

The French may be tempted to cut their non-European obligations in order to insure a larger German contribution. This would lead to a progressive deterioration in the French position in Indochina, and would give rise to renewed and perhaps increased pressure for a negotiated settlement with Ho Chi Minh. [redacted]

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Comment: [redacted]

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The French Government hopes to patch together a 1952 military budget bolstered by substantial US aid for both France and Indochina. In view of

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the worsening French economic situation, however, it is increasingly doubtful that the National Assembly will accept the government program.

Since even the most optimistic estimates on the Indochina struggle call for expanded expenditures for at least two years, the possibility of a negotiated peace cannot be entirely discounted.

3. France refutes right of US to investigate Moroccan question: The French Foreign Office intends to counter Egypt's presentation of the Moroccan independence issue in the UN General Assembly by declaring the UN "incompetent" to investigate this matter and refusing to carry out any UN resolution on the subject. According to a Foreign Office official, the French delegate would make "a complete statement" before the General Assembly showing that France is carrying out the provisions of the UN Charter, and the Declaration of Human Rights. [redacted]

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Comment: Egypt introduced the Moroccan question in the General Assembly as a result of heavy pressure from both the Moroccan Nationalists and the Arabs after efforts to obtain Brazil's mediation failed.

Despite repeated urging from US officials and demands from the Arab League, France has refused to adopt any concrete program aimed at greater autonomy for the Moroccans. French stubbornness will complicate the various problems of the Middle East, which sees the West as opposed to legitimate nationalist aspirations.

4. MOROCCO. Arab nationalist vilification of Pepsi Cola results in disorders: Moroccan nationalist prejudice against Western ways and products has been whipped up by an Egyptian press article announcing that Pepsi Cola is manufactured with substance from pigs' stomachs. Moslem indignation was further stirred by reports that the Coca Cola Company had fired 500 employees and replaced them with Jews, thus proving itself to be pro-Zionist.

[redacted] sales dropped to less than one percent of normal; in Tangier, Arabs have threatened the company's drivers and have torn down advertising. [redacted]

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5. AUSTRIA. Union of Independents attacked by coalition parties as neo-Nazi: Militant representatives of the People's Party have advised Socialist

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Minister of the Interior Helmer that the Union of Independents (VdU) has publicly acknowledged its adherence to the "Nazi idea" of "the people's community." Pointing out that Helmer was instrumental in authorizing the VdU as a political party, the People's Party asks why Helmer does not prosecute this violation of the denazification laws.

25X1 The Socialists, in urging a strong effort to replace Communist and VdU incumbents in the shop-steward elections this fall, themselves pin the Nazi label on the VdU. A Socialist youth organ, noting the VdU's influential position in West Austrian enterprise, demands that the Nazis be hit wherever they are met and urges a Socialist victory which would discourage a Nazi renaissance in Austria.

Comment: The People's Party has long been resentful of alleged Socialist encouragement given to the VdU in 1949 in an election maneuver attributed to a desire to weaken the People's Party's position. There have been many signs that the Socialists have subsequently regretted the success of the VdU, partly because the VdU has gained some support from working-class elements and partly because the VdU has offered a potential haven for People's Party right-wing dissidents opposed to cooperation with socialism. While the VdU is not accurately described as "neo-Nazi," its designation as such is a convenient weapon for the campaigns preceding the shop-stewards elections.

6. ITALY. Favorable reaction to revision among numerous signatories of Italian peace treaty: The Governments of Belgium, the Netherlands, Greece, the Union of South Africa, Brazil, and Nationalist China have expressed approval in principle of the US-UK-French declaration supporting revision of certain provisions of the 1947 Italian Peace Treaty. The US State Department has estimated that by early December there will be agreement among the friendly signatories. It has been proposed that a meeting of these signatories be held, possibly in Paris or Rome, in early December to formalize a common declaration supported by notes from each signatory to Italy.

The US Embassy in Rome, however, believes that the Italian Foreign Office would not be "enthusiastic" about such a meeting, which would tend to highlight the abstention of any country, such as India and Yugoslavia, which might not be ready to act at that time. Furthermore, announcement that such a meeting was imminent might somewhat limit the US if it were found necessary to "bring pressure" on the Italians in connection with Italo-Yugoslav negotiations over the disposition of the Trieste Free Territory.

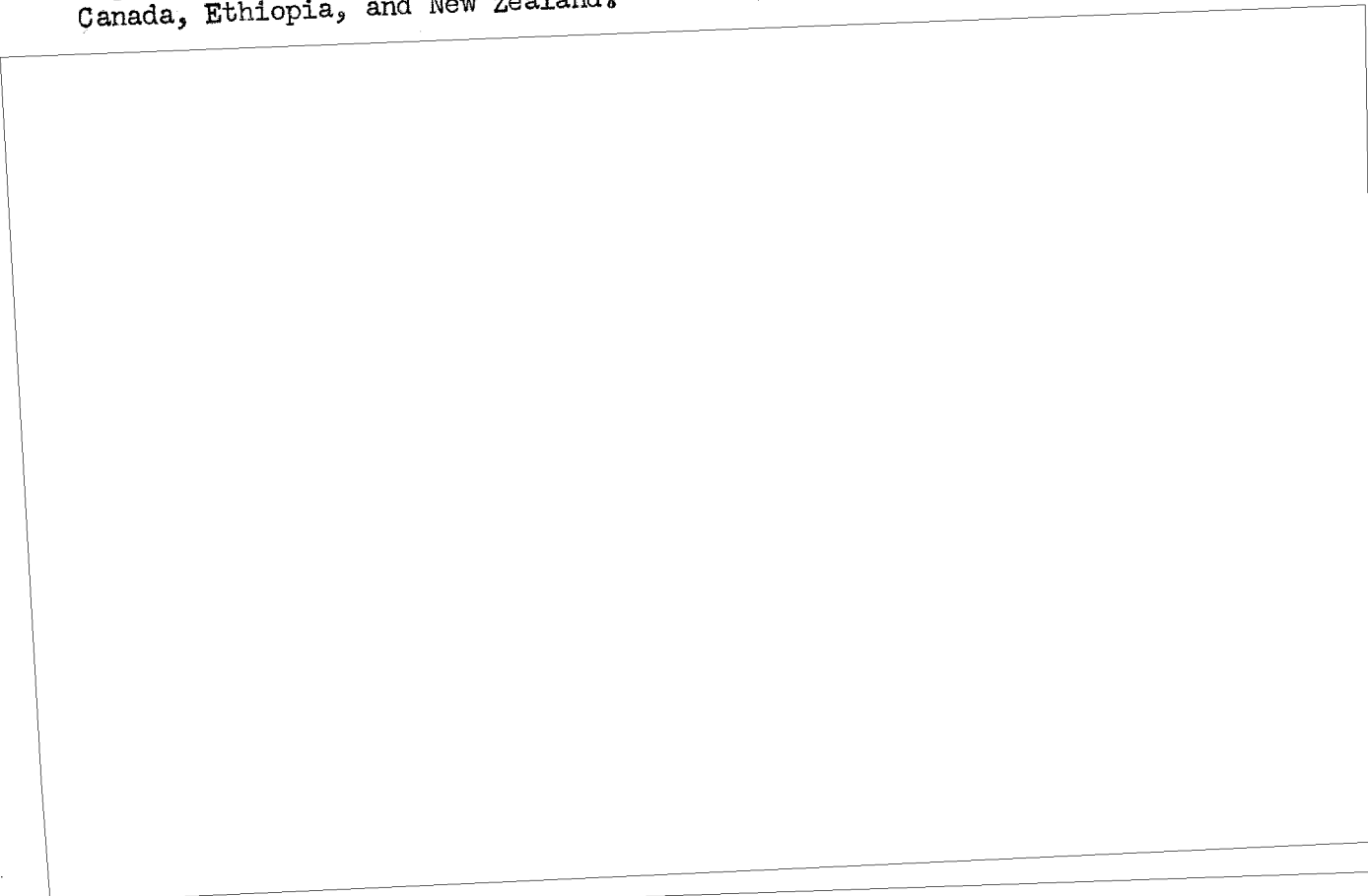
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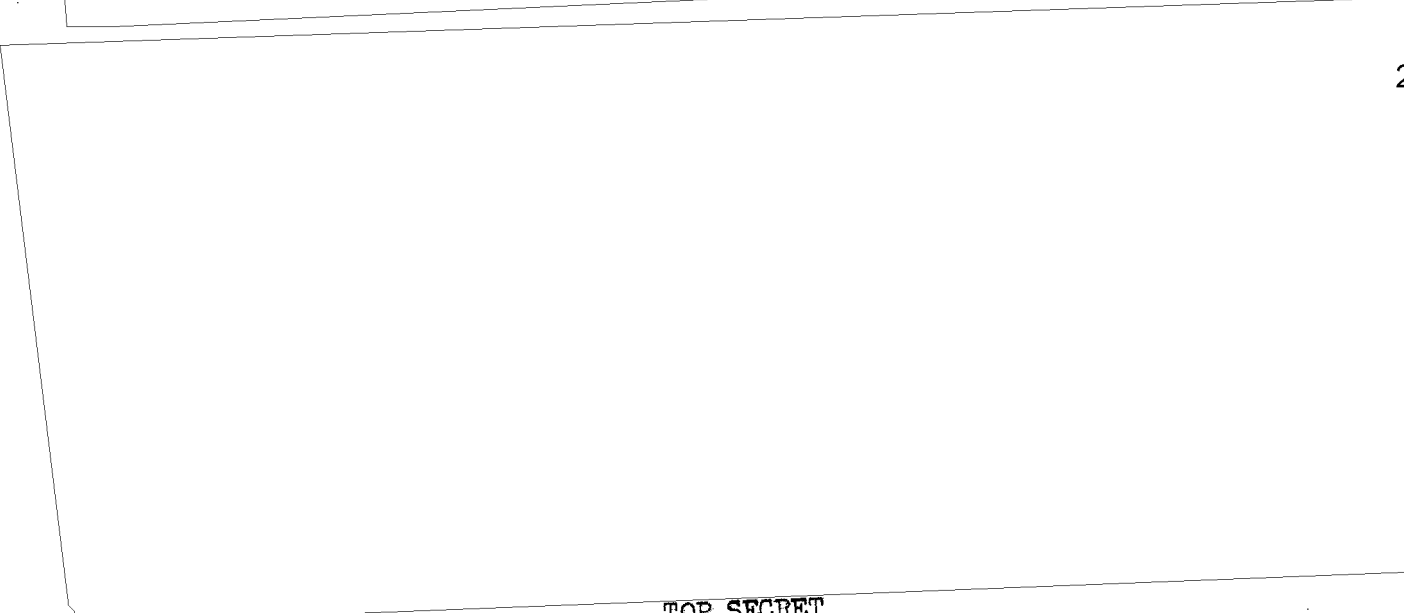
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Comment: In addition to the Soviet bloc, Yugoslavia, and India, other signatories which have not yet indicated approval of revision are Australia, Canada, Ethiopia, and New Zealand.



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10. NORWAY. Trade arranged with USSR: [redacted] Norway's negotiations with the USSR have resulted in three barter-type arrangements, despite the failure of the two countries to conclude a formal trade agreement. One of the deals involves strategic commodities, namely, 1,000 tons of aluminum from Norway, and 10,000 tons of manganese ore and 5,000 tons of chrome ore, in addition to rock salt and apatite, from the Soviets. The US Embassy in Oslo believes that this exchange, for which the USSR met Norwegian price stipulations, and the others, whereby Norway will receive rye from the USSR and receive sterling for a portion of Norwegian herring exports, are advantageous for Norway. [redacted]

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Comment: The Norwegian Government contends that the net advantages to the West of acquiring manganese ore far outweigh the disadvantages of exporting the aluminum to the USSR. This commitment of 1,000 tons of aluminum brings Norway's total aluminum exports to the USSR for this year to 3,000 tons, the same amount shipped in 1948 and in 1949.

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12. Congress grants Peron leave of absence: The Argentine Congress has authorized "the president until April 30 to take leave of absence for such purposes and for such time as he deems appropriate." While the debates stressed that President Peron desired to campaign as a private citizen, they did not indicate when he would leave or return to his official duties, or why leave was authorized through 30 April although the elections are scheduled for 11 November. The US Embassy in Buenos Aires comments that "there is much more to all this than meets the eye" [redacted]

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[redacted]
In the same session the congress voted to invite Latin American journalists and labor leaders to attend the 11 November elections at government expense. [redacted]

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Comment: In authorizing the invitation of Latin American observers to attend the elections, the congress specified 11 November, although the 30 April time limit on Peron's leave has caused speculation as to whether the elections may be postponed. Peron's term of office expires in June 1952.

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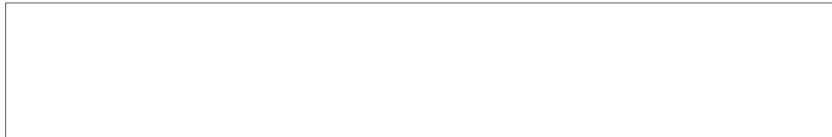
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SECTION 2 (EASTERN)

1. Pakistan. Anti-British sentiment may extend to Pakistan: An influential, conservative Pakistani newspaper has suggested in a leading editorial that popular demonstrations might be the most effective means of calling international attention to Pakistan's concern over the Kashmir problem. The paper cites the effectiveness of such demonstrations in Iran and Egypt. On 10 October the student bodies of all colleges and universities in Karachi held meetings to organize a plan for action regarding Kashmir.

The US Embassy in Karachi states that, if the Pakistani Government permits the rise of popular emotion regarding Kashmir, it will increase the risk of war and possibly include Pakistan in a chain reaction of anti-British maneuvers subject to exploitation by dissident elements. [REDACTED]

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SECTION 3 (WESTERN)

3. Spain. US-Spanish military talks may be reaching stalemate: Latest reports from the US Ambassador in Madrid indicate that US-Spanish military talks may be approaching an impasse because Franco fears that US aid will be of a limited military nature only and that appreciable economic aid will not be forthcoming. In a recent statement [redacted] Franco is reported to have mentioned 200 million dollars as a satisfactory beginning for the economic assistance he wants. [redacted]

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Comment: Franco's determination to require substantial economic aid as a quid pro quo for a US-Spanish military arrangement has been reported before, and there is no indication that he will alter his views.

4. France-United Kingdom. Deferment of statement on German unity requested: The British and French Foreign Offices as well as the US High Commission in Germany have all recommended that a proposed US statement on German unity be deferred. French Foreign Minister Schuman feels that Chancellor Adenauer is handling the situation capably, and that any three-power declaration would be used by the West German parliamentary opposition as by the Communists as an indication of dictatorial interference by the Western powers in German Affairs. British Foreign Secretary Morrison asserts that the statement should be given further study, in light of its possible effects upon Western policy toward the East; and High Commissioner McCloy believes that it must be very carefully presented in order to avoid the impression that the Allies are subordinating German unification to the question of Germany's integration with the West. All three agree that any statement should be coordinated with Chancellor Adenauer. [redacted]

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